

**COMMONWEALTH OF MASSACHUSETTS
BEFORE THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

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WESTERN MASSACHUSETTS)	D.T.E. 04-106
ELECTRIC COMPANY)	
)	

SETTLEMENT AGREEMENT

WHEREAS, this Settlement Agreement (“Settlement”) is entered into by and among Western Massachusetts Electric Company (“WMECO” or the “Company”), the Attorney General of the Commonwealth of Massachusetts ("Attorney General"), and the Associated Industries of Massachusetts (“AIM”) (collectively, the "Parties") with regard to the Company’s proposed base rate case filed pursuant to G. L. c. 164, § 94.

WHEREAS, the Parties have engaged in informal discovery and negotiations with regard to the matters specified in the articles of this Settlement.

WHEREAS, the Parties have raised competing and disputed claims with regard to the various issues contained in the general rate case filing, including, but not limited to, the magnitude of the claimed revenue deficiency, but wish to resolve those matters on mutually agreeable terms, and without establishing any new precedent or principle applicable to any other proceedings.

WHEREAS, the Parties intend that customers receive the full value of the settled issues, and not some substitute regulatory treatment of lesser value, and agree that no terms of this Settlement or supporting schedules and calculations will be used or interpreted to diminish, in any way, the intended customer benefit related to this Agreement.

WHEREAS, this Settlement is offered with the intent of resolving the proposed base rate

increase filed by WMECO on November 16, 2004, that would become effective on January 1, 2005, and thus avoid an unnecessary, time consuming and costly rate proceeding.

NOW THEREFORE, in consideration of the exchange of promises and covenants hereinafter contained, the Parties hereby agree as follows:

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ARTICLE I -- Transition Charge

The Parties agree that with the acceptance by the Department of Telecommunications and Energy ("Department") of this Settlement, WMECO will reduce its transition charge, currently 8.28 mills, to a lower level for each of the years 2005 and 2006. The new rate for 2005 will be approximately 5 mills. In no case will the level be lower than necessary to service WMECO's outstanding rate reduction bonds. For 2005 and 2006, the lowered transition charge in combination with distribution rates and transmission rates will be designed to result in a rate decrease for WMECO customers.

ARTICLE II -- Distribution Rates

The Parties agree that with the acceptance of this Settlement by the Department WMECO will be allowed to increase the distribution component of its rates by the following amounts:

January 1, 2005—Increase of \$6.0 million,
January 1, 2006—Incremental increase above 2005 of \$3.0 million.

The increases will be applied on an equal basis to each rate class. The Parties agree that on and after January 1, 2007, distribution rates will remain at the 2006 level unless changed on or after

that date.

ARTICLE III – Rate Freeze

The Parties agree that with the acceptance of this Settlement WMECO shall not seek any distribution base rate increase that would become effective before January 1, 2007, except as provided in Article V, below. That is, WMECO can file new rates to become effective, after a six-month Department suspension period, on January 1, 2007. A request for a pension and/or Post-Retirement Benefits Other than Pension (“PBOP”) reconciliation mechanism is considered for purposes of this Agreement a distribution base rate increase.

ARTICLE IV -- PBR Filing

The Parties agree that with acceptance of this Settlement by the Department, WMECO will not file a performance-based ratemaking (“PBR”) mechanism until at least 30 days after the Department issues an order in WMECO’s next general rate case in order to improve the accuracy of the data used for the PBR. WMECO anticipates filing a general rate case for rates effective, after a six-month suspension period, on January 1, 2007. The Parties also agree, however, that WMECO’s first PBR rate adjustment, if approved, will take effect 12 months after the Department’s order to set the cast off rates in WMECO’s base rate case, and not 12 months from the date of the Department’s order on WMECO’s PBR mechanism. That is, it is intended that WMECO will not be adversely affected by the submittal of its PBR mechanism after its general rate case that sets the cast off rates. The Parties agree to enter into PBR settlement discussions at

any point prior to the Department's final order on the PBR mechanism to give the Parties the opportunity to resolve issues associated with the PBR mechanism, if possible.

ARTICLE V -- Earnings Sharing And Emergency Rate Relief

The Parties agree that with acceptance of this Settlement by the Department that WMECO's return on equity will be set at 9.85 percent. In 2005 and 2006 there will be a 285 basis point deadband below this level and in 2005 and 2006 should WMECO's return drop below the lower point of this deadband, or 7.0 percent, WMECO has the right to file a distribution base rate case. In addition, for such period that WMECO's return on equity is less than 7.0 percent, a sharing mechanism will be in place such that shareholders will bear 50 percent of the monetary difference between the 7.0 percent return and the actual return on equity and ratepayers will bear 50 percent of the difference between 7.0 percent and the actual return, as determined by the Department after a hearing. On the upside, the deadband extends 115 basis points, to 11.0 percent. In 2005 or 2006 should WMECO's return increase above 11.0 percent, the Attorney General has the right to request the Department to open a rate case. In addition, for such period that WMECO's return on equity is higher than 11.0 percent, a sharing mechanism will be in place such that shareholders will reap 50 percent of the monetary difference between the 11.0 percent and the actual return on equity and ratepayers will reap 50 percent of the difference between 11.0 percent and the actual return, as determined by the Department after a hearing.

ARTICLE VI -- Exogenous Factors

The Parties agree that with acceptance of this Settlement by the Department and for 2005 and 2006 WMECO will adjust its rates for exogenous factors on the same terms as those factors allowed for the Boston Gas Company in D.T.E. 03-40 and the Blackstone Gas Company in 04-79. As in those cases, the threshold level will be calculated as .001253 times operating revenues.

ARTICLE VII -- Capital Projects Scheduling

The Parties agree that with acceptance of this Settlement by the Department and for 2005 and 2006 WMECO will provide the Attorney General and the Department with a list of projects by February 1, 2005, like WMECO's affiliate, The Connecticut Light and Power Company, did in its last rate case, that WMECO shall do that are designed to improve reliability. WMECO agrees to spend not less than \$24 million in 2005 and not less than \$24 million in 2006 on capital additions related to these projects, barring extraordinary circumstances.

ARTICLE VIII -- Low Income Program

The Parties agree that with acceptance of this Settlement by the Department WMECO shall expand the NUSstart pilot program approved in D.T.E. 97-120 for low income customers to a level proportionate to that currently in place for WMECO's affiliate, The Connecticut Light & Power Company. The costs of such expansion in excess of the benefits will be deferred with carrying costs and recovered over an appropriate period as will be determined in WMECO's next general distribution rate case.

ARTICLE IX -- Performance Report Card

The Parties agree that with acceptance of this Settlement by the Department WMECO will send out annually as a bill stuffer a "report card" on WMECO's service quality for the previous year. The size and timing of this bill stuffer will be determined in consultation by the Company and the Attorney General. The Attorney General and the Company agree that the size and timing of the bill stuffer will be designed to minimize any extra postage expense or other expense connected with sending out these bill stuffers.

ARTICLE X -- Service Quality Planning

The Parties agree that with acceptance of this Settlement by the Department WMECO and the Attorney General will work together on service quality issues, and agree to work on proposing a Service Quality Program to the Department by June 30, 2005, possibly with a system of penalties and rewards.

ARTICLE XI -- Tariffs

The distribution rate tariffs that would go into effect for 2005 pursuant to the approval of this Settlement are attached in Exhibit A. Bill impacts for these proposed tariffs are also included in Exhibit A. In addition, illustrative tariffs and bill impacts for 2006 are attached in Exhibit B.

ARTICLE X -- Conditions

10.1 Neither the making of this Settlement nor its acceptance by the Department shall be deemed in any respect an admission by any Party that any allegation or contention in this

proceeding is true or false.

10.2 Except as specifically set forth in this Settlement as necessary to accomplish the customer benefit intended by this Settlement, the Department's approval of this Settlement shall not constitute approval of, or precedent regarding any principle or issue related to this proceeding. The making of this Settlement shall not be deemed to foreclose any party from making any contention in any future proceeding or investigation.

10.3 This Settlement is expressly conditioned upon the Department's approval of all provisions herein, without change or condition. The provisions of the Settlement are not severable. In the event this Settlement is not approved in its entirety by the Department it shall be deemed to be withdrawn and shall not constitute any part of the record of his proceeding or be used for any other purpose.

10.4 This Settlement is the product of settlement negotiations. The Parties agree that the content of those negotiations (including any workpapers or documents produced in connection with the negotiations) are confidential, that all offers of settlement are without prejudice to the position of any party or participant presenting such offer or participating in such discussion, and that they will not use the content of those negotiations in any manner in these or other proceedings involving one or more of the parties to this Settlement Agreement, or otherwise.

This Settlement is entered into by the signatories listed below who represent that they are

authorized on behalf of their principals to enter into this Settlement Agreement.

WESTERN MASSACHUSETTS ELECTRIC COMPANY

By its attorney,

Stephen Klionsky
100 Summer Street, 23rd Floor
Boston, MA 02110
617/345-1066

THOMAS REILLY, ATTORNEY GENERAL

By,

Joseph W. Rogers, Chief
Utilities Division
Attorney General's Office
One Ashburton Place
Boston, MA 02110
617/727-2200 Ext. 2405

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ASSOCIATED INDUSTRIES OF MASSACHUSETTS

By its representative,

Angela O'Connor
Vice President, Energy Policy
Associated Industries of Massachusetts
222 Berkeley Street, 13th Floor
Boston, MA 02117
617/262-1180

Dated: November 16, 2004